

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Palestinian technology week took place on 2 – 6 November. 250 local and international IT companies participated in a conference on the first day and 46,000 people visited the exhibition throughout the week. International companies Microsoft, Google, Intel and Cisco were all present.

Nearly 140,000 tonnes of rubble has been removed to a crushing site in Gaza as part of a UNDP project. The rubble will be crushed and made into blocks, potentially for re-use in paving roads or as a building material.

The cornerstone of the new Al Jinan neighbourhood outside Jenin was laid by President Mahmoud Abbas on 13 October. The neighbourhood will include 1,000 housing units, a shopping centre, health clinic and other public services.

Wataniya Mobile began operating with 3.8MHz frequency on 1 November. The service starts with 40,000 users. Efforts continue to secure the release of the agreed 4.8MHz frequency.

Banking News

To further strengthen the Palestinian banking system along the lines of the Basel II framework¹, the PMA has instructed banks to increase their capital to \$50m by the end of 2010. This is the second stage of a plan, launched at the beginning of 2008, to boost banks' capital. The first phase required banks to increase their capital from a minimum of \$20m to \$35m by the end of this year.

There are currently 10 local banks and 11 foreign banks operating in the Palestinian Territory with a network of 207 branches and offices; 161 in West Bank and 46 in the Gaza Strip. The combined capital of all banks is approximately \$900m. All foreign banks, and 26% of local Palestinian banks, meet the current capital requirement of \$35m. Eyad Zeitawi, from the office of the PMA's Governor, explained to the Bulletin that if banks are unable to raise their capital to meet the new requirements, 'they will be encouraged to merge with others as part of an effort to rationalise the number of banks'.

In a further effort to reduce banking risks the PMA announced, on 12 October, that by the beginning of 2010 it will launch a new computerised system for dealing with bounced cheques. It will automatically blacklist any client who has bounced five cheques in three consecutive months and prevent them from receiving a chequebook in the future. This replaces an older, manual system that blacklisted clients who bounced more than 15 cheques in three months. In the first half of 2009 almost 12% of all cheques bounced with a value of approximately \$250m.²

Information on cheques will feed into a new credit scoring system to be launched in Spring 2010. By the end of November, the PMA expects to contract a German company, 'Credit Info', to calculate credit scores for all banking clients in the Palestinian Territory. Scores will be based on information available on the credit registry system, including a client's record of borrowing, timely payment of bills and loan history.³ The new system will help banks speed up their credit decisions and enable the PMA to keep track of who is taking credit from different banks. It is based on US and Canadian systems and fits within a larger plan to develop the PMA's Credit Bureau, which began in March 2008.

¹ Basel II is the internationally agreed standard for bank regulators which recommends that banks hold capital reserves appropriate for their exposure to risk.

² Figures from PMA Statistical Data up to Q2 2009. Not available online. 140,972 cheques were submitted for clearance in the first six months of 2009 to a value of \$3,766m, 16,531 bounced with a value of \$250m.

³ See Bulletin July 2008 for background on the credit registry system.

Technology Week

On 2 November, the first day of Palestinian technology week, over 250 people from local and international IT companies participated in the Expotech technology conference in Ramallah. Conference sessions focused on discussing the impact of multinationals on developing the local sector, the potential from outsourcing, the work of the Palestinian Information Technology Association of Companies (PITA) and the Palestine Information Communication Technology Incubator (PICTI) and the opportunity for venture capital in the ICT sector.

Throughout the week over 48,000 people visited the Palestinian Expotech Exhibitions (31,000 in Ramallah and 17,000 in Gaza) which showcased 56 Palestinian IT companies (38 in Ramallah and 18 in Gaza). In addition four international companies - Microsoft, Google, Cisco, and Intel - presented and showcased their latest products for the first time to the Palestinian sector.

Gaza Reconstruction

In the past few months nearly 140,000 tonnes of concrete debris, and 3,000 tonnes of non-concrete debris, have been collected, sorted and removed to a crushing site situated between Rafah and Khan Younis. The work is part of the UNDP's 'Gaza Rubble Removal Project', which was launched during the summer and aims to reduce the total amount of rubble from 600,000 tonnes to 450,000 tonnes. The project is expected to generate around 120,000 local short-term jobs.

The rubble is currently being crushed and made into blocks using machines provided by a private contractor. Studies are underway to assess whether the blocks of crushed rubble can be safely used to pave roads in Gaza or as an essential building material. The cost of the project is estimated at \$13.5m. To date a total of \$5.5m of funding has been provided by the Canadian International Development Agency (\$3.2m) and the Swedish International Development Cooperation Agency (\$2.3m). UNDP are in discussion with the Japanese Government about the remaining \$8m of funding required.

Rubble removal is one of the few reconstruction projects currently underway in the Gaza Strip. A number of other projects, including the rehabilitation of infrastructure and housing, have been suspended due to limited availability of materials and the ongoing political situation.

On 26 October UNRWA announced that it will expand its Job Creation Programme and double the number of jobs created to 14,000 a month. 3,100 jobs will support

the Gazan private sector. John Ging, Director of UNRWA Operations in Gaza, said that, 'prior to the blockade, more than half of all employment in Gaza was private sector driven...the situation now is that there are very few businesses left operational'. An estimated 120,000 jobs have been lost in the private sector and 3,750 establishments have closed down in the aftermath of the recent conflict.⁴

New Jenin Neighbourhood

On 13 October, President Mahmoud Abbas laid the cornerstone for Al Jinan, a new 1,000 unit neighbourhood situated 3km outside Jenin's city centre.⁵ This is the second development by Amaar Group, the real estate investment arm of the Palestine Investment Fund.⁶ The project is expected to take five years to complete.

Residential buildings in Al Jinan will be either \$100,000 two-storey, semi-detached villas of 175 square metres, \$80,000 three bedroom apartments of 150 square metres or \$55,000 two bedroom apartments of 110 square metres. Onsite facilities will include a shopping centre, health clinic, kindergarten, mosque and public spaces.⁷

Walid Amer, the PIF director of development for Amaar Group, told the Bulletin that the first phase of construction includes 132 housing units, major roads and other infrastructure and some supporting facilities. Phase one is scheduled for completion at the end of 2012 and will cost around \$11m. In the first stage of phase one, due for completion by August 2011, 13 villas and 3 apartment buildings will be built. In the second stage, expected to take 8 months, 14 villas will be built. In the final stage of phase one 5 apartment buildings and 7 villas will be constructed over an 18 month period. The budget for the whole project is unclear as construction costs have not been finalised and contracts have not yet been awarded.

Wataniya Launches

After some delay,⁸ Wataniya Palestine (WP) launched its mobile phone service on 1 November with 40,000 users. The move is a relief for the Palestinian Authority (PA) who were liable for over \$300m of damages if WP was unable to launch. The service has begun operating with a frequency of 3.8MHz, the narrowest range ever allocated to a new network according to

4 See: <http://domino.un.org/UNISPAL.NSF/9a798adbf322aff38525617b006d88d7/1092ebbc898b97b78525765c004b5616?OpenDocument>

5 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=232064>

6 See Bulletin July 2009 for details of the first development, Al Reehan, by Amaar group.

7 See: <http://www.pif.ps/etemplate.php?id=365&x=4>

8 See Bulletin September 2009 and July 2009 for background.

the Economist Intelligence Unit.⁹ Efforts continue to secure the release of the additional 1 MHz as soon as possible. The introduction of a second mobile phone company is expected to inject US\$700m of investment into the Palestinian Territory and generate \$354m in fiscal revenue for the PA. It will also create thousands of jobs.

Palestinian Inventions

Three Palestinian inventions won awards at the “Made in the Arab World” (MIA) competition in Cairo on 21 October. Out of 32 participants and eight Palestinian entries, Wafa Al-Dijani from Jerusalem and Ahmad Quraini from Tulkarem won joint first place in the professionals’ category for their respective inventions of a GPRS control and monitoring system for use in high voltage electric power stations and an electricity generating road bump. Ayman Arandi and Ahmad Rabi from Nablus won second place in the undergraduate category for ‘TouchIS’, a low cost touch screen.

MIA is organised by the Arab Science and Technology organisation which aims to connect academic institutions with the private sector and to foster innovation in the Arab World by channelling research in Arab universities towards solving technological or scientific problems in the Arab region.¹⁰

The Palestinian participants were picked during the ‘Made in Palestine’ (MIP) competition held in Ramallah on 6 October.¹¹ MIP is supported by the Swedish charity Diakonia, the Ford Foundation and the Palestinian Investment Fund.¹² The competition attracted 130 applicants with 27 making it through to exhibit at the final event. Participants met investors at the exhibition and discussed opportunities for their inventions to be adopted by national industries.¹³

The event was organised by Al-Nayzak, a non-profit Palestinian organisation that aims to establish a generation of highly skilled Palestinian inventors from the applied sciences, engineering and technology sectors. Al-Nayzak provides education, counselling and research services and has been operating since 2001.

Al-Nayzak has recently completed a four year programme that invested in young inventors, assisted in their research and development and helped to acquire patents for innovative products such as non-chemical

olive oil soap and shampoo. On the Palestinian success at MIA, Aref Al-Husseini founder and director of Al-Nayzak Organization said ‘Palestine proved today its ability to add value to scientific and industrial fields in the Arab world.’

Finance and Insurance Survey

The PCBS Finance and Insurance Survey for 2008 showed that the size and activity of the sector increased in 2008. 50 enterprises were engaged in finance and insurance activities, employing 6,221 people, an increase of 15% from 2007 (5,406). Total output of the sector was \$421m, an increase of 9% from 2007 (\$387m). Gross value added was \$342m, an increase of 4% from the previous year (\$328m in 2007). The survey also showed that gross fixed capital formation (a measure of new investment) was \$25m (up 6% from 2007), net taxes on production were \$31m (up 10% from 2007), and operating surpluses (a proxy for pre-tax profits) were \$170m (up 32% from 2007).¹⁴

Banks’ Pre-Tax Profits

In October, the six banks listed on Al Quds disclosed their financial statements for the first nine months of 2009. All of the listed banks recorded healthy pre-tax profits.¹⁵

Listed Company	Pre-tax Profit Jan-Sep 2009	Pre-tax Profit Jan-Sep 2008	Change
Bank of Palestine (BOP)	\$23.5m	\$17.9m	31%
Quds Bank (QUDS)	\$4.0m	-\$2.2m	282%
Palestine Investment Bank (PIBC)	\$3.6m	\$3.7m	-3%
Arab Islamic Bank (AIB)	\$2.6m	\$5.4m	-50%
Al Rafah Microfinance Bank (AMB)	\$1.9m	\$0.6m	217%
Palestine Commercial Bank (PCB)	\$1.0m	-\$0.2m	600%

The Bulletin spoke to the BOP who said that their performance in the first nine months of this year was boosted by its ‘outstanding’ saving and lending programmes. ‘Our historical record, wise risk management and investment policies have greatly impacted on BOP credibility and performance,’ they added. BOP is the second largest bank in the Palestinian Territory with 418,000 bank accounts across 39 branches in 16 governorates. It holds 16% of all Palestinian deposits and has capital of \$100m.¹⁶

9 The Economist Intelligence Unit (October, 2009) ‘Country Report: Palestinian Territories’

10 See: <http://mia-astf.com/index.php>

11 See: <http://www.alquds.com/node/202294>

12 See: <http://www.alnayzak.org/en/articles/view/section/id/24/>

13 See: <http://www.arabianbusiness.com/arabic/569690>

14 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/FinPress08E.pdf,

15 See: <http://www.p-s-e.com/PSEWEBSITE/english/ComapnyNewsArchieve.aspx>

16 See: <http://www.sahem-inv.com/news.php?id=706&month=1>

Third Annual Palestinian Capital Market Forum

The Third Annual Capital Market Forum took place in Bethlehem on 2 November 2009. The Forum, entitled 'Emerging Markets: Priorities & Opportunities Post Crisis', was opened by Dr. Hasan Abu-Libdeh, the new Minister of National Economy. The focus of discussion was the impact of the financial crisis on capital markets and opportunities to restore confidence in the stock market as crisis recedes.¹⁷

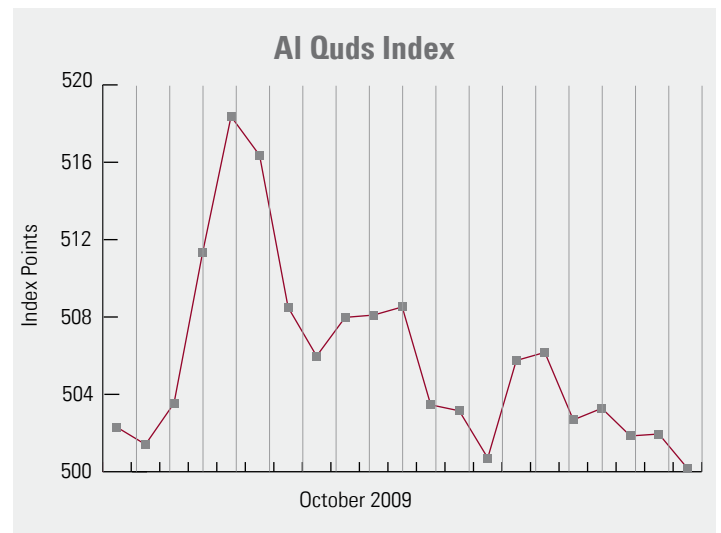
Approximately 400 people attended from both private and public financial institutions and a number of international financial experts. Sufyan al-Barghouthi, the coordinator of the Forum, told the Bulletin that 'the key recommendations focused on setting new procedures which will help PSE to develop its strategic plan for the coming years', adding that 'these procedures include modernisation of legal frameworks in Palestine through the adoption of the new companies law, developing the follow-up of regulatory and supervisory authorities - in the management of mergers and acquisitions and protecting the rights of shareholders - and making efforts to gain access to new investors inside and outside Palestine'. Other recommendations included the establishment of specific courts to deal with financial cases and the creation of a framework for the development of private sector pension funds, an important future source of capital in the market.

At the conference a series of meetings were held between Palestinian delegates and representatives from Chile. Cooperation was agreed in the sectors of

pharmaceuticals and communications. In addition a memorandum of agreement was signed between the PSE and the 'Club Deportivo Palestino' of Chile'. The Chilean football club was formed in 1920 by a group of Palestinian migrants and became a registered company in 2004. It hopes to float on the PSE by the end of the year.

October Trading

The AI Quds index was almost unchanged this month, up only 0.25%, or 1.08 points, to reach 500.18 points on the last day of trading. The index peaked at 518.4 points on the fifth day of trading. Trading volume was fairly light with just 14.9 million shares changing hands over 21 trading sessions - a decrease of 45% compared to the heavy trading in September 2009. The value of traded shares fell 8.3% to \$30 million, while market capitalisation rose 1.2% to \$2.4bn.



¹⁷ See: <http://www.p-s-e.com>

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